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8 Washington Trust Bank

HON. WHITMAN L. HOLT  
Hearing: March 8, 2021  
10 a.m. PST  
Response: March 1, 2021  
4:00 p.m. PST  
Reply: March 4, 2021

9 UNITED STATES BANKRUPTCY COURT  
10 EASTERN DISTRICT OF WASHINGTON

11 In Re:  
12 EASTERDAY RANCHES, INC., *et al*,  
13 Debtors.<sup>1</sup>

14 Chapter 11  
15 Lead Case No. 21-00141-WLH11  
Jointly Administered  
**WASHINGTON TRUST BANK'S  
MOTION TO APPOINT CH. 11  
TRUSTEE**  
and  
**JOINDER IN TYSON'S FRESH  
MEAT, INC.'S MOTION FOR  
APPOINTMENT OF CHAPTER 11  
TRUSTEE (ECF 79)**

16  
17 **INTRODUCTION**  
18

19 Washington Trust Bank ("Washington Trust"), by and through its attorney  
20 Trevor R. Pincock of Lukins & Annis, P.S., hereby moves pursuant to 11 U.S.C. §  
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25 <sup>1</sup> The Debtors along with their case numbers are as follows: Easterday Ranches,  
26 Inc., (21-00141-WLH11) ("Ranches") and Easterday Farms, a Washington general  
partnership (21-00176-WLH) ("Farms").

**WASHINGTON TRUST BANK'S MOTION TO  
APPOINT CH. 11 TRUSTEE: 1**

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1 1104(a)(1) for an order appointing a Chapter 11 trustee to assume control of the  
2 estate of Debtor Easterday Farms (“Farms”).  
3

4 Washington Trust also hereby joins in Tyson Fresh Meat, Inc.’s Motion for  
5 Appointment of Chapter 11 Trustee to assume control of the estate of Debtor  
6 Easterday Ranches, Inc. (“Ranches”) (ECF 79) (“Tyson’s Motion”).  
7

8 Easterday Farms and Easterday Ranches may collectively be referred to  
9 herein as the “Debtors.”

10 Washington Trust is one of the Debtors’ largest secured creditors. It brings  
11 this motion based on the massive fraud engineered by Debtors’ prior management  
12 and events that occurred in January 2021 while Debtors were under the guidance of  
13 Paladin Management. Washington Trust believes the appointment of a Chapter 11  
14 trustee to assume control of both Debtors’ estates is in the best interest of creditors.  
15

16 Washington Trust’s Motion is based on the Declaration of Claire M. Baker  
17 filed with this Court on February 3, 2021 (ECF 33), and the Declaration of W.  
18 Benjamin Cox filed simultaneously herewith. Washington Trust incorporates into  
19 this Motion Tyson’s Motion for Appointment of Chapter 11 Trustee (ECF 79) and  
20 the declarations and request for judicial notice filed in support of Tyson’s Motion.  
21

22 Attached hereto is a [Proposed] Order Directing Appointment of Ch. 11  
23 Trustee.  
24

25 **WASHINGTON TRUST BANK’S MOTION TO  
26 APPOINT CH. 11 TRUSTEE: 2**

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## **BACKGROUND**

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3 Washington Trust incorporates the Background set forth in Tyson's Motion  
4 and supplements that Background as follows:

5 On or about September 3, 2020, Ranches and Farms signed a Loan  
6 Agreement and executed a Promissory Note in favor of Washington Trust  
7 evidencing a line of credit in the amount of \$45,000,000.00 (the "Loan"). See  
8 Declaration Claire M. Baker, Exhibit A (ECF 33).

9 Payment of the Promissory Note is secured by collateral identified in  
10 Agricultural Security Agreements executed by Ranches and Farms (the  
11 "Collateral"). Washington Trust duly perfected its security interest in the  
12 Collateral. See Declaration Claire M. Baker, Exhibits B, D (ECF 33).

13 On December 22, 2020, Washington Trust became aware of Tyson's  
14 allegations against Ranches. See Declaration of W. Benjamin Cox, ¶ 3. A  
15 Washington Trust representative immediately contacted Cody Easterday to discuss  
16 the impact of those allegations on the Washington Trust Loan. Id. On January 4,  
17 2021, Washington Trust representatives met with Cody Easterday, Peter Richter  
18 from Paladin Management ("Paladin"), and others at the Easterdays' office in  
19 Pasco. Id. at ¶ 5. Mr. Richter from Paladin led the meeting and did most of the  
20 speaking. They discussed the Washington Trust Bank Loan and pay down of the  
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**WASHINGTON TRUST BANK'S MOTION TO  
APPOINT CH. 11 TRUSTEE: 3**

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1 line of credit, and that the Easterday entities were delinquent in providing financial  
2 and other reports to Washington Trust. Id.

3           From the meeting Washington Trust understood that Paladin was familiar  
4 with the terms of the Washington Trust Loan and the Easterday entities' financial  
5 situation in general. Id. at ¶ 5. Washington Trust also understood Mr. Richter to  
6 say that the Easterday entities, with Paladin's help, were in the process of  
7 formulating a plan, which included identification of farm real estate in Benton  
8 County that could be sold to generate funds to repay the Washington Trust Bank  
9 Loan, but that they needed at least six months to do so. At this meeting Mr.  
10 Richter did not specifically identify any real estate that might be sold to repay the  
11 Washington Trust Bank loan. There was no discussion about selling the North Lot.  
12 Id. at ¶ 6.

13           Washington Trust representatives asked if the Easterday entities would grant  
14 Washington Trust Bank deeds of trust on the farm real estate that would be sold.  
15 From Mr. Richter's response Washington Trust understood that the bank should  
16 make a proposal. The bank representatives said Washington Trust might consider  
17 a forbearance agreement in exchange for deeds of trust on farm real estate. Id. at ¶  
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**WASHINGTON TRUST BANK'S MOTION TO  
APPOINT CH. 11 TRUSTEE: 4**

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1 Cody Easterday and Mr. Richter requested Washington Trust to forbear from  
2 exercising default remedies based on Farms' failure to provide financial and other  
3 reports required by the terms of the Loan. Washington Trust agreed to temporarily  
4 forbear on those defaults until January 31, 2021. Washington Trust confirmed that  
5 agreement in a letter to Farms. Id. at Exhibit A.

6  
7 Washington Trust representatives met with Cody Easterday, Mr. Richter  
8 from Paladin, and others again on January 22, 2021. Id. at ¶ 9. Mr. Richter led the  
9 meeting and did most of the speaking in an effort to assuage Washington Trust's  
10 concerns about the situation with Tyson and its impact on the Loan. Mr. Richter  
11 explained that a sale of the North Lot was closing that day but he refused to  
12 identify the buyer. The bank representatives understood from Mr. Richter that  
13 Paladin was still in the process of identifying other real property that the Easterday  
14 entities could sell to repay the Washington Trust Bank loan, and that the proposed  
15 forbearance agreement was still a possibility. Id. Washington Trust Bank did not  
16 approve payment of an intercompany loan to from Ranches to Farms. Id. at ¶ 10.  
17 Based on Mr. Richter's and Cody Easterday's comments, Washington Bank  
18 representatives left the January 22, 2021, meeting hopeful that an agreement could  
19 be reached that would satisfy Washington Trust Bank that the loan would be fully  
20 repaid. Id. at ¶ 11.  
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**WASHINGTON TRUST BANK'S MOTION TO  
APPOINT CH. 11 TRUSTEE: 5**

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1        In hindsight it's clear that Paladin and Cody Easterday were not negotiating  
2        in good faith, and that their representations to provide overdue financials and the  
3        possibility of granting deeds of trust on farm real estate were hollow promises to  
4        delay Washington Trust from taking action to enforce the terms of the Loan as  
5        Easterday management (at Paladin's direction) sold the North Lot, paid an  
6        intercompany loan, transferred more than a million dollars from Farms to Ranches,  
7        and otherwise prepared to generate funds to pay for Paladin's continued  
8        management and the impending bankruptcy.

9  
10      On or about January 24, 2021, Tyson filed a complaint against Ranches in  
11      Franklin County Superior Court for breach of contract, fraud, and the appointment  
12      of a receiver.

13      On January 26, 2021, Washington Trust issued Ranches and Farms written  
14      notice of default. The notice of default was issued based on the allegations in  
15      Tyson's Complaint, events of default on the Loan, and Farms' failure to act upon  
16      representations it made in the meetings with Washington Trust.

17      On January 29, 2021, Washington Trust filed a Complaint against Ranches  
18      and Farms for breach of contract and requested the appointment of a receiver.  
19      Washington Trust noted a hearing on its motion to appoint a receiver for February  
20      1, the same day and time as the hearing scheduled for Tyson's motion to appoint a  
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24      **WASHINGTON TRUST BANK'S MOTION TO  
25      APPOINT CH. 11 TRUSTEE: 6**

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1 receiver. Ranches filed a bankruptcy petition before the hearing. Based on the  
2 representations of Farms' counsel that it would file a bankruptcy petition within a  
3 week, the Franklin County Superior Court judge orally issued a temporary  
4 restraining order that prohibited Farms from doing anything outside the ordinary  
5 course of business. Farms filed a bankruptcy petition on February 8, 2021.  
6

7 Washington Trust shares in Tyson's concerns related to the sale of the North  
8 Lot and the distribution of proceeds from that sale, which occurred at the time  
9 Paladin was advising the Easterday entities. In addition to these issues, the  
10 Easterday entities engaged in other suspicious transactions and clear breaches of  
11 the Washington Trust Loan while under the guidance of Paladin, which form  
12 additional bases on which Washington Trust seeks the appointment of a Chapter 11  
13 Trustee to assume control over both Debtors' estates.  
14

15 Despite the Loan terms that all of Ranches' and Farms' deposit accounts  
16 would be maintained at Washington Trust, none of the funds that were purportedly  
17 paid to Farms from the sale of the North Lot were deposited into Washington Trust  
18 accounts. See Declaration of Claire M. Baker, ¶¶ 12, 13 (ECF 33). The fact that  
19 the proceeds did not flow through Washington Trust accounts was a violation of  
20 the Loan terms and is further indication that distribution of the sale proceeds were  
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**WASHINGTON TRUST BANK'S MOTION TO  
APPOINT CH. 11 TRUSTEE: 7**

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1 meant to benefit Easterday insiders at the expense of, and without notice to,  
2 Washington Trust.

3           Additionally, the Washington Trust Loan agreement provides that “any  
4 future intercompany loans or transfers of funds outside of the initial approved  
5 capitalization budget of Easterday Dairy, LLC<sup>2</sup> will also require prior bank  
6 approval.” See Declaration Claire M. Baker, Exhibit A (ECF 33). Ranches used  
7 proceeds from the sale of the North Lot to pay Farms \$4,748,089 on an  
8 intercompany loan. See Declaration of Claire M. Baker, ¶12, Exhibit F (ECF 33).  
9 Washington Trust did not approve payment of this intercompany loan, and the  
10 funds for payment on that alleged intercompany loan were not deposited into  
11 Farms’ accounts at Washington Trust. See Declaration of W. Benjamin Cox, ¶ 10;  
12 Declaration of Claire M. Baker, ¶13.

13           In addition to these issues related to the sale of the North Lot, Washington  
14 Trust discovered that in December 2020 and January 2021, during at least part of  
15 the time period that Ranches and Farms were operating under the guidance of  
16 Paladin, Farms transferred at least \$1,650,000.00 to Ranches. This is alarming  
17 because Ranches purchases feed from Farms and there is no reason (that  
18 Washington Trust is aware of) for Farms to transfer funds to Ranches. See

26           <sup>2</sup> Easterday Dairy, LLC is interrelated to Easterday Ranches, Inc. and Easterday  
27 Farms.

**WASHINGTON TRUST BANK’S MOTION TO  
APPOINT CH. 11 TRUSTEE: 8**

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1 Declaration of Claire M. Baker, ¶ 10 and Exhibit E (ECF 33). To date Washington  
2 Trust has not been provided an explanation for these transfers. These transfers are  
3 violations of the Loan that occurred, at least in part, while Paladin was advising the  
4 Easterday entities and meeting with Washington Trust.

The above-referenced actions were clear and direct violations of the Washington Trust Loan agreement that occurred prior to the Debtors' bankruptcy filings while Paladin was advising Ranches and Farms. As a result, Washington Trust has no confidence in Paladin's ability to manage the Debtors' estates and requests that a Chapter 11 trustee be appointed to assume control over both Debtors' estates.

## LEGAL ANALYSIS

16 Washington Trust joins in, and incorporates at this place, the facts, legal  
17 analysis, and arguments set forth in Tyson's Motion.

## CONCLUSION

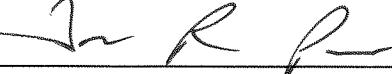
20 Based on the foregoing, Washington Trust respectfully requests the court to  
21 appoint a Chapter 11 trustee to assume control over the estates of both Debtors.

## **WASHINGTON TRUST BANK'S MOTION TO APPOINT CH. 11 TRUSTEE: 9**

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1 DATED this 19<sup>th</sup> day of February, 2021.  
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LUKINS & ANNIS, P.S.

5 By   
6 TREVOR R. PINCOCK  
7 WSBA #36818  
8 Attorneys for Washington Trust  
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**WASHINGTON TRUST BANK'S MOTION TO  
APPOINT CH. 11 TRUSTEE: 10**

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## APPENDIX 1

### PROPOSED ORDER FOR APOINTMENT OF TRUSTEE

See attached.

**WASHINGTON TRUST BANK'S MOTION TO  
APPOINT CH. 11 TRUSTEE: 11**

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UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF WASHINGTON

In Re:

EASTERDAY RANCHES, INC., *et al*,  
Debtors.<sup>1</sup>

Chapter 11

Lead Case No. 21-00141-WLH11  
Jointly Administered

**[PROPOSED] ORDER GRANTING  
WASHINGTON TRUST BANK'S  
MOTION FOR APPOINTMENT OF  
CHAPTER 11 TRUSTEE**

The Motion of Creditor Washington Trust Bank ("Washington Trust") for Appointment of Chapter 11 Trustee was filed herein on or about February 19, 2021 as Dkt. No. \_\_\_\_ (the "Washington Trust Trustee Motion"). The Washington Trust Trustee Motion came on regularly for hearing before the Court on March 8, 2021,

<sup>1</sup> The Debtors along with their case numbers are as follows: Easterday Ranches, Inc., (21-00141-WLH11) and Easterday Farms, a Washington general partnership (21-00176-WLH).

**[PROPOSED] ORDER GRANTING MOTION  
FOR APPOINTMENT OF CHAPTER 11  
TRUSTEE: 1**

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1 at 10:00 a.m., after adequate notice (the "Hearing"). Appearances were as noted in  
2 the record. The Court has considered the Washington Trust Trustee Motion and  
3 the declarations and exhibits filed therewith, along with any oppositions thereto,  
4 replies thereto, other pleadings relating thereto, and all evidence filed in connection  
5 therewith, and has heard argument of counsel.

7 Good cause appearing:

9       1. The Washington Trust Trustee Motion is hereby GRANTED. All  
10 oppositions thereto are OVERRULED.

12       2. The United States Trustee is hereby directed to select a Chapter 11  
13 trustee for appointment in this case over the estates of Debtors Easterday Ranches,  
14 Inc. and Easterday Farms.

16       3. This Order memorializes the Court's ruling made on the record in  
17 open court at the Hearing. The Court's ruling on the record shall constitute the  
18 Court's findings and conclusions on this matter, and shall be deemed adopted  
19 herein.

21                   **//End of order//**

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**[PROPOSED] ORDER GRANTING MOTION  
FOR APPOINTMENT OF CHAPTER 11  
TRUSTEE: 2**

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1 Presented by:  
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**[PROPOSED] ORDER GRANTING MOTION  
FOR APPOINTMENT OF CHAPTER 11  
TRUSTEE: 3**

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